

TENNESSEE VALLEY AUTHORITY

POWER PROGRAM



First Quarter Report



During the first quarter, TVA continued to demonstrate operational excellence through record-breaking generation performance and the development of new cost-saving procedures.

- Johnsonville Fossil Plant Unit 3 generated power for more than 15 consecutive months, breaking a 30-year-old record for continuous power production by a TVA fossil plant.
- Watts Bar Nuclear Plant Unit 1 operated at a capacity factor of about 85 percent, exceeding the industry average of 65 percent for a first-year plant.
- And Browns Ferry Nuclear Plant won the Nuclear Utility Services' "Presidential Award for Excellence" for leading the nuclear industry in developing an on-line, paperless system to access nuclear procedures, drawings, and vendor manuals.

Kilowatt-hour sales for the first quarter of 1997 increased by 3 percent over the prior year; however operating revenues remained constant at \$1,332 million due to changes in the sales mix. Unseasonably warm weather, coupled with higher depreciation and operating costs associated with two additional nuclear units in service, resulted in a net loss for the quarter of \$64 million, compared with a net income of \$31 million in the first quarter of 1996.

TVA continues to position itself for a competitive future by being flexible in increasing generating capacity without building new power plants. TVA issued a request for proposal in October for options to purchase up to 2,000 megawatts of power to meet peak demand between 1998 and 2010, and

2,000 megawatts of base-load capacity between 2002 and 2010. TVA also continues to develop cost-effective financing products to aggressively manage its debt. In November, TVA offered a 40 year double-put bond priced at an unprecedented rate one full percentage point below the comparable U.S. Treasury rate. This transaction was recognized as the "Breakthrough Deal of the Year" by a leading investor magazine.

Operational excellence and innovation will continue to form the foundation of a successful TVA future. We will persist in improving our competitive position in the electric utility industry, and continue to foster customer satisfaction by providing value-added energy services.


Chairman

Financial Highlights (millions)

Three Months Ended December 31	1996	1995
Operating revenues	\$ 1,332	\$ 1,332
Operating expenses	(895)	(811)
Operating income	437	521
Other income (expense), net	2	(5)
Interest expense	(503)	(485)
Net (loss) income	\$ (64)	\$ 31

Sales of Electricity (millions - kWh)

Three Months Ended December 31	1996	1995
Municipalities and cooperatives	27,328	27,554
Industries directly served	4,265	4,078
Federal agencies	2,378	1,374
Total sales of electricity	33,971	33,006

RESULTS OF OPERATIONS

TVA recognized a net loss of \$64 million for the three months ended December 31, 1996, as compared with net income of \$31 million for the same period last year.

Operating Revenues

Sales of electricity increased approximately three percent from 33.0 billion kilowatt-hours for the three months ended December 31, 1995, to 34.0 billion kilowatt-hours for the same period this year. The unseasonably warm weather experienced during the first quarter of fiscal year 1997 resulted in a shift in the sales mix from higher-priced residential sales to lower-priced commercial, industrial, and federal agency sales. As a result, the average price per kilowatt-hour declined from 3.98 cents for the three months ended December 31, 1995 to 3.87 cents for the same period this year. Accordingly, even though total kilowatt-hour sales increased during the period, total operating revenues remained unchanged for the period at \$1,332 million.

Operating Expenses

Operating expenses for the three months ended December 31, 1996, were \$895 million as compared to \$811 million for the same period last year. The \$84 million (10%) increase resulted primarily from increased operating and depreciation costs for two additional nuclear units (Browns Ferry 3 and Watts Bar 1). Operating and maintenance expenses increased \$46 million (18%) from \$256 million to \$302 million for the three months ended December 31, 1995 and 1996, respectively. Depreciation and amortization expense increased \$65 million (36%) from \$179 million to \$244 million for the same period. Net fuel and purchased power expense decreased \$31 million (10%) from \$313 million to \$282 million for the three months ended December 31, 1995 and 1996, respectively. Even though total kilowatt-hour sales increased, net fuel and purchased power expense decreased as a result of increased low-cost hydro generation, a 5 percent reduction in average fuel cost, and an increase in off-system sales.

Interest Expense

Net interest expense increased \$18 million (4%) from \$485 million for the three months ended December 31, 1995, to \$503 million for the same period this year. The increase resulted from higher average outstanding debt as compared to the prior period and a general increase in long-term interest rates. Additionally, capitalized interest declined \$15 million due to a reduction in construction work in progress as compared to the prior period.

FINANCIAL POSITION

Net cash provided by operations improved \$118 million from \$6 million to \$124 million for the three months ended December 31, 1995 and 1996, respectively. While net income decreased by \$95 million for the reporting period, items not requiring cash increased by \$93 million primarily as a result of greater depreciation and amortization expense, and other working capital requirements decreased by \$120 million.

Cash used for construction expenditures declined \$145 million (46%) for the same period. The decrease was due to the completion of Watts Bar 1 and the return to service of Browns Ferry 3.

Cash flows from financing activities shifted from a cash inflow of \$296 million for the three months ended December 31, 1995, to a cash outflow of \$159 million for the same period this year. The \$159 million used in financing activities for the first quarter of fiscal year 1997 is primarily due to the reduction of total outstanding debt of \$144 million during the quarter.

Balance Sheets *(Unaudited)*

ASSETS	December 31 1996	September 30 1996
	(MILLIONS)	
Current Assets		
Cash and cash equivalents	\$ 20	\$ 238
Accounts receivable	654	680
Inventories and other, at average cost		
Fuel	104	110
Other	273	278
Total current assets	1,051	1,306
Property, Plant, and Equipment		
Completed plant	28,063	27,955
Less accumulated depreciation	(6,755)	(6,553)
Net completed plant	21,308	21,402
Construction in progress	777	744
Deferred nuclear generating units	6,298	6,293
Nuclear fuel and capital lease assets	1,079	1,082
Total property, plant, and equipment	29,462	29,521
Investment Funds	440	440
Deferred Charges and Other Assets		
Loans and other long-term receivables	308	319
Debt issue and reacquisition costs	1,147	1,162
Other deferred charges	1,257	1,281
Total deferred charges and other assets	2,712	2,762
Total assets	\$33,665	\$ 34,029

LIABILITIES AND PROPRIETARY CAPITAL

Current Liabilities		
Accounts payable	\$ 324	\$ 392
Accrued liabilities	139	187
Accrued interest	463	498
Discount notes	2,530	1,774
Current maturities of long-term debt	1,250	2,250
Total current liabilities	4,706	5,101
Other Liabilities	1,591	1,580
Long-Term Debt		
Public bonds—senior	19,503	19,403
Federal Financing Bank—senior	3,200	3,200
Public bonds—subordinated	1,100	1,100
Unamortized discount and other	(383)	(383)
Total long-term debt	23,420	23,320
Proprietary Capital		
Appropriation investment	603	608
Retained earnings reinvested in power program	3,345	3,420
Total proprietary capital	3,948	4,028
Total liabilities and proprietary capital	\$33,665	\$ 34,029

Statements of Income *(Unaudited)*

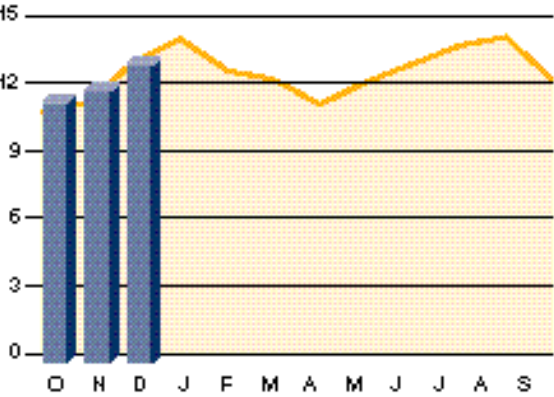
	Three Months Ended December 31 1996	1995
	(MILLIONS)	
Operating Revenues		
Sales of electricity		
Municipalities and cooperatives	\$ 1,146	\$ 1,168
Industries directly served	117	111
Federal agencies	51	35
Other	18	18
Total operating revenues	1,332	1,332
Operating Expenses		
Fuel and purchased power, net	282	313
Operating and maintenance	302	256
Depreciation and amortization	244	179
Tax-equivalents	67	63
Total operating expenses	895	811
Operating Income	437	521
Other income (expense), net	2	(5)
Income before interest charges	439	516
Interest Expense		
Interest on debt	499	490
Amortization of debt discount, issue, and reacquisition costs, net	24	30
Allowance for funds used during construction	(20)	(35)
Net interest expense	503	485
Net (Loss) Income	\$ (64)	\$ 31

Statements of Cash Flows *(Unaudited)*

Cash Flows from Operating Activities		
Net (loss) income	\$ (64)	\$ 31
Items not requiring cash	301	208
Other changes, net	(113)	(233)
Net cash provided by operations	124	6
Cash Flows from Investing Activities		
Construction expenditures	(168)	(313)
Allowance for funds used during construction	20	35
Other, net	(35)	(72)
Net cash used in investing activities	(183)	(350)
Cash Flows from Financing Activities		
Borrowings, net	(144)	312
Other	(15)	(16)
Net cash (used in) provided by financing activities	(159)	296
Net change in cash and cash equivalents	\$ (218)	\$ (48)

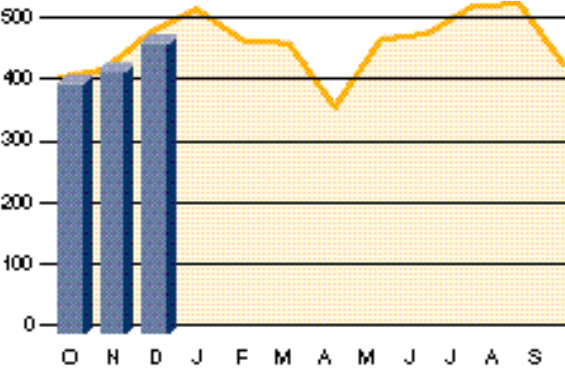
Total TVA Generation

billions of kwh



Total Electric Revenue

millions of dollars



Average Revenue

cents per kwh

